

## Message Text

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PAGE 01 BONN 04624 01 OF 03 201833Z

67

ACTION EUR-12

INFO OCT-01 ISO-00 IO-10 CIAE-00 DODE-00 PM-03 H-02 INR-07

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C O N F I D E N T I A L SECTION 01 OF 03 BONN 04624

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: ECON, EFIN, EGEN, GW

SUBJECT: MACROECONOMIC ROUNDUP - LOOKING FOR THE  
SILVER LINING

REF: STATE 4334 , BONN 4373

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PAGE 02 BONN 04624 01 OF 03 201833Z

1. SUMMARY. THERE HAS BEEN MUCH SPECULATION AND TALK ABOUT WHETHER THE FIRST GLIMMER OF AN IMPROVEMENT ON THE ECONOMIC HORIZON FOR GERMANY IS BEGINNING TO BE DETECTED. THERE ARE INDICATORS SUPPORTING BOTH THE PRO AND THE CON SIDE OF THIS ISSUE. EXAMINATION OF THESE LEADS TO THE CONCLUSION THAT WHILE THERE ARE SOME POSITIVE DEVELOPMENTS, THERE ARE NOT YET ANY BROADLY-BASED GROUNDS TO SUGGEST THAT A MEANINGFUL SILVER LINING HAS AS YET BEEN FOUND. THE ECONOMIC UPTURN MAY NOT TAKE PLACE UNTIL SPRING 1976 ACCORDING TO SOME, BUT NOT ALL OBSERVERS. END SUMMARY.

2. WIDELY INTERPRETED AS ONE OF THE PRIMARY POSITIVE FEATURES ON THE ECONOMIC LANDSCAPE HAVE BEEN THE RECENT RELATIVELY REASONABLE WAGE CONTRACT SETTLEMENTS. CITED ARE THE PACESETTING METAL WORKERS' 6.8 PERCENT AND THE PUBLIC EMPLOYEES' 6 PLUS PERCENT NEGOTIATED PAY RISES. THIS THEN IS COMPARED BY SOME WITH LAST YEAR'S AVERAGE HOURLY WAGE INCREASE OF 12.8 PERCENT TO DEMONSTRATE HOW WELL LABOR DEMANDS ARE BEING DAMPENED AND HOW MUCH BETTER THE ECONOMY AS A WHOLE WILL FARE AS A RESULT. THIS COMPARISON, HOWEVER, IS SOMEWHAT MISLEADING. THE CURRENT WAGE SETTLEMENTS IN THE 6.5 PERCENT RANGE DO NOT INCLUDE THE APPROXIMATELY 3 PERCENT STATISTICAL OVERHANG FROM LAST YEAR WHICH MUST BE ADDED TO MAKE THE DATA MORE COMPARABLE IN CONCEPT. WAGE RISES IN COMPARABLE TERMS ARE DOWN 3.3 PERCENT FROM LAST YEAR'S RECORD LEVELS, BUT THEY ARE STILL NOT AS STARTLINGLY LOW AS FIRST IMPRESSIONS WOULD INDICATE. TAKING THE OVERHANG FACTOR INTO ACCOUNT PLUS OTHERS, SUCH AS RISING EMPLOYER CONTRIBUTIONS TO SOCIAL SECURITY, HAS BEEN CALCULATED TO SIGNIFY THAT THE TOTAL WAGE COST PER HOUR IN THE NEW CONTRACTS FOR THE METAL WORKERS IS UP BY 10.5 PERCENT AND BY 11.25 PERCENT FOR THE CIVIL SERVANTS. THESE FIGURES, WHEN ADJUSTED DOWNWARD FOR THE PROJECTED SHORTENED WORKING WEEK AND REDUCED WORK FORCE NEVERTHELESS SEEM ESSENTIALLY IN LINE WITH THE GOVERNMENT'S TARGET FOR AN INCREASE OF 7.5 - 8.5 PERCENT IN THE OVERALL TOTAL WAGE BILL (A DIFFERENT CONCEPT THAN HOURLY RATES OR COSTS). IN THIS SENSE, THERE IS NO DOUBT BUT

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PAGE 03 BONN 04624 01 OF 03 201833Z

THAT A FAVORABLE INTERPRETATION MUST BE PUT ON THIS DEVELOPMENT.

3. MANY OBSERVERS DREW OPTIMISTIC CONCLUSIONS ABOUT FUTURE ECONOMIC DEVELOPMENTS BASED ON THE LEVEL OF INDUSTRIAL ORDERS RECEIVED IN DECEMBER AND AS REPORTED BY THE FEDERAL STATISTICAL OFFICE IN FEBRUARY. HOWEVER, THE STATISTICAL OFFICE PUBLICATION FOR MARCH REVISED THE

DECEMBER ORDER DATA SUBSTANTIALLY DOWNWARD FOR  
UNEXPLAINED REASONS. FURTHERMORE, A SEVERE DROP IN  
TOTAL INDUSTRIAL ORDERS RECEIVED IN JANUARY -- THE  
LATEST MONTH FOR WHICH DATA IS AVAILABLE -- WAS RECORDED.  
IN VALUE TERMS THESE WERE DOWN FROM JANUARY 1974 LEVELS  
10 PERCENT AND 18 PERCENT IN VOLUME. THE  
SHARPEST DROP CAME IN EXPORT ORDERS, WHICH WERE DOWN A  
VERY SIGNIFICANT 18 PERCENT IN VALUE AND 25 PERCENT IN  
VOLUME TERMS FROM JANUARY OF THE PREVIOUS YEAR. MORE-  
OVER, NO REVIVAL IN DOMESTIC DEMAND TO COMPENSATE FOR  
THIS SLACKENING COULD BE READ INTO THE 6 PERCENT YEAR-  
TO-YEAR DECLINE IN THE VALUE OF ORDERS FROM THE HOME  
MARKET. THE JUST- ISSUED MONTHLY REPORT OF THE BUNDES-  
BANK, HOWEVER, SEASONALLY ADJUSTED THE DATA AND TOOK

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PAGE 01 BONN 04624 02 OF 03 201848Z

67

ACTION EUR-12

INFO OCT-01 ISO-00 IO-10 CIAE-00 DODE-00 PM-03 H-02 INR-07

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C O N F I D E N T I A L SECTION 02 OF 03 BONN 04624

SOME HEART FROM THE FACT THAT THE JANUARY DATA WAS UP FROM DECEMBER 1974 LEVELS, PARTICULARLY IN THE CASE OF CAPITAL GOODS; THE FOREIGN ORDER DROP WAS CONFIRMED. THE SEASONAL ADJUSTMENT AND MONTH-TO-MONTH COMPARISON DO NOT, UNFORTUNATELY, INSPIRE MUCH CONFIDENCE FOR MEANINGFUL ANALYTICAL PURPOSES. ALL IN CONFIDENTIAL

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PAGE 02 BONN 04624 02 OF 03 201848Z

ALL, THERE IS NO SOLID CAUSE FOR GREAT ENCOURAGEMENT TO BE FOUND IN THE INDUSTRIAL ORDER INDEX, THE MOST SUBSTANTIAL QUANTIFIED INDICATOR OF AGGREGATE FUTURE ECONOMIC TRENDS AVAILABLE.

4. LOOKING AT THE ACTUAL EXPORT LEVEL IN VALUE TERMS, THERE IS A CLEAR REVERSAL OF PAST TRENDS WITH THE JANUARY LEVEL DOWN 1 PERCENT. WHILE THIS MIGHT BE A HEALTHY CHANGE FROM THE STANDPOINT OF THE EXTERNAL ACCOUNT WHICH HAS BEEN EXCESSIVELY IN SURPLUS FOR SOME TIME, IT CARRIES OMINOUS IMPLICATIONS FOR THE LEVEL OF ECONOMIC ACTIVITY AND JOBS AT HOME SINCE THERE HAS SO FAR BEEN NO OFFSETTING PICKUP IN DOMESTIC DEMAND. EVIDENCE OF THIS INTERNAL MARKET WEAKNESS IS SEEN IN THE NEGATIVE ONE PERCENT GROWTH IN IMPORTS IN JANUARY.

5. PROSPECTS IN THE AUTOMOTIVE INDUSTRY HAD A NOTABLE IMPROVEMENT IN THE EARLY PART OF THE YEAR, WITH JANUARY 1975 NEW CAR REGISTRATIONS UP 20 PERCENT OVER THE VERY LOW LEVEL THE SAME MONTH LAST YEAR. HOWEVER, JANUARY CAR PRODUCTION WAS DOWN 35 PERCENT FROM THE SAME MONTH LAST YEAR. (REDUCTION OF EXCESS STOCKS APPARENTLY LAY BEHIND THIS SITUATION OF LOWERED PRODUCTION IN THE FACE OF HIGHER SALES). BEGINNING LAST AUGUST THE MORE SIGNIFICANT MONTHLY OVERALL INDUSTRIAL PRODUCTION INDEX BEGAN TO DROP BY AN INCREASING AMOUNT EACH MONTH, AND WAS STILL DECELERATING EVEN MORE RAPIDLY IN JANUARY, WHEN IT WAS DOWN 9 PERCENT FROM TWELVE MONTHS EARLIER. CONCLUSION: DESPITE SOME SIGNS OF POTENTIAL SECTORAL IMPROVEMENT, THE OVERALL INDUSTRIAL OUTLOOK CANNOT BE SAID TO BE IMPROVING. CONFIRMATION: THE RESPECTED IFO INSTITUTE SURVEYED 270 OF THE LARGEST GERMAN MANUFAC-

TURERS RECENTLY AND FOUND THAT IN 1975 SALES ARE EXPECTED TO RISE 7 PERCENT AND INVESTMENT BY 5 PERCENT. IN REAL TERMS THIS REPRESENTS A VIRTUAL ZERO-GROWTH SITUATION.

6. UNEMPLOYMENT CLIMBED ONLY SLIGHTLY IN NON-SEASONALLY-ADJUSTED TERMS FROM 5.1 PERCENT IN JANUARY TO 5.2 PERCENT IN FEBRUARY. GOVERNMENT SPOKESMEN COULD SAFELY STATE THAT THE WORST WAS OVER AND THAT THE ADVENT  
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PAGE 03 BONN 04624 02 OF 03 201848Z

OF WARMER WEATHER WOULD REDUCE UNEMPLOYMENT IN COMING MONTHS. HOWEVER, IN SEASONALLY ADJUSTED TERMS, THERE WAS NO PROSPECT OF THIS HAPPENING, BUT RATHER THE LIKELIHOOD WAS IT WOULD WORSEN IN VIEW OF THE PRODUCTION PERSPECTIVES CITED EARLIER. THE SEASONALLY ADJUSTED UNEMPLOYMENT RATE IN JANUARY WAS 3.4 PERCENT, AND 3.6 PERCENT IN FEBRUARY. A 4 PERCENT AVERAGE FOR THE YEAR IS FORECAST BY THE IFO ECONOMIC RESEARCH INSTITUTE IN MUNICH.

7. RECENT INDUSTRIAL FAIR RESULTS HAVE BEEN BETTER THAN EXPECTED, BUT NOT IN THE EXCEPTIONAL CATEGORY. THE IMPORTANT FRANKFURTER MESSE, WHICH CLOSED FEBRUARY 27 WAS TYPICAL: 70 PERCENT OF THE EXHIBITORS EXPRESSED "SATISFACTION" WITH THEIR DOMESTIC SALES; 57 PERCENT FELT SIMILARLY REGARDING THEIR SUCCESS WITH EXPORT SALES.

8. THE STOCK MARKET HAS RISEN SOME 22 PERCENT FROM THE BEGINNING OF THE YEAR UNTIL MID-MARCH. THIS, THOUGH, COULD BE ATTRIBUTED AS MUCH TO THE LOWERING OF INTEREST RATES AND PURCHASES BY FOREIGNERS AS TO A RESTORATION OF INVESTOR CONFIDENCE.

9. CONSUMER PRICES ARE CURRENTLY INFLATING AT ABOUT A 6 PERCENT ANNUAL RATE, AROUND WHICH LEVEL THEY ARE EXPECTED TO STABILIZE OVER THE COURSE OF THE YEAR. THIS IS ABOUT A 1 PERCENTAGE POINT IMPROVEMENT OVER LAST YEAR AND CONSIDERABLY BETTER THAN THE REST OF THE INDUSTRIALIZED WORLD. THIS-IS,  
DOES SIGNIFY  
THAT THE EASIER MONEY POLICY COURSE OF THE BUNDESBANK IS NOT IN PROSPECT OF BEING THREATENED DUE TO INFLATIONARY PRESSURES.

10. DESPITE THE LACK OF SUBSTANTIAL AND BROADBASED INDICATORS THAT THINGS ARE GETTING BETTER, THERE IS NEVERTHELESS A CERTAIN POSITIVE, IF INCHOATE,

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PAGE 01 BONN 04624 03 OF 03 201907Z

67

ACTION EUR-12

INFO OCT-01 ISO-00 IO-10 CIAE-00 DODE-00 PM-03 H-02 INR-07

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C O N F I D E N T I A L SECTION 3 OF 3 BONN 04624

PSYCHOLOGICAL ATMOSPHERE PREVAILING IN SOME QUARTERS.  
THIS MAY BE IN PART DUE TO THE EFFORTS OF GOVERNMENT AND  
MONETARY AUTHORITIES TO INSTILL A MORE OPTIMISTIC VIEW  
AND FOSTER CONFIDENCE IN CONSUMERS AND INVESTORS. THE  
IMPORTANCE OF THIS ELEMENT IS NOT TO BE UNDERESTIMATED.  
A TOP-LEVEL INDUSTRIALIST TOLD AN EMBOFF THAT NO FURTHER  
GOVERNMENTAL PUMP PRIMING IS NECESSARY, BUT RATHER  
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PAGE 02 BONN 04624 03 OF 03 201907Z

PEOPLE MUST BE PSYCHOLOGICALLY INFLUENCED TO COMMIT THEIR MONEY. HE DREW ATTENTION TO THE ABNORMALLY HIGH 15 PERCENT SAVINGS RATE AND THE FACT THAT THE BANKS HAVE AMPLE UNUSED CREDIT AVAILABLE. PRIVATE SECTOR USE OF BANK CREDIT IS INCREASING AT ABOUT HALF THE RATE IN THE PAST FEW MONTHS AS IN THE SAME COMPARABLE PERIOD IN PREVIOUS YEARS. THERE IS NO LACK OF MONEY, ONLY THE LACK OF WILL TO DO SOMETHING WITH IT.

11. ANOTHER HIGH LEVEL SOURCE IN INDUSTRY TOLD AN EMBOFF THAT, IN EFFECT, THAT BUSINESS WAS HOLDING OFF ON INVESTMENT AND SPEAKING GLOOMILY ABOUT PROSPECTS BECAUSE IT WAS A CALCULATED STRATEGY TO SWING THE NORTH RHINE WESTPHALIAN ELECTION AWAY FROM THE SPD. AFTER THE MAY 4 ELECTION HE THEREFORE PREDICTED THAT THE ECONOMIC PICTURE

IN THIS REGION AT LEAST WOULD LOOK BETTER.

12. THE MANAGING DIRECTOR OF THE GERMAN FEDERATION OF INDUSTRIES, BDI, OPINED TO AN EMBOFF THAT, WHILE HE WAS NOT INTERESTED IN PROPAGATING BLACK PESSIMISM HE SAW NO ELEMENTS THAT WOULD PERMIT HIM TO FORECAST A BETTER NEAR-TERM FUTURE. HE SAID HE HAD JUST MET WITH A GROUP OF LEADING INDUSTRIALISTS AND THAT THEY HAD CONCLUDED THAT THE EARLIEST THAT AN ECONOMIC UPTURN COULD BE EXPECTED WOULD BE EARLY 1976. THE INTERNAL FORECAST OF THE BDI FOR REAL GNP GROWTH IN 1975 WAS PLUS 0.5 PERCENT AS COMPARED WITH THE GOVERNMENT'S UNREALISTIC 2 PERCENT PROGNOSTICATION.

13. A CHANCELLERY SOURCE SEES THE PROBABILITY OF NO PICK UP IN THE ALL-IMPORTANT PRIVATE INVESTMENT UNTIL JUNE. HE FEELS THAT THE BUSINESSMEN ARE POSTPONING TAKING ADVANTAGE OF THE GOVERNMENT'S 7.5 PERCENT INVESTMENT BONUS, WHICH IS SCHEDULED TO EXPIRE JUNE 30, 1975, UNTIL THE VERY LAST MOMENT. DUE TO AN APPROXIMATELY FIVE MONTH LAG BETWEEN THE PLACEMENT OF

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PAGE 03 BONN 04624 03 OF 03 201907Z

SUCH INVESTMENT AND ITS REFLECTION IN PRODUCTION STATISTICS, IT IS ONLY IN NOVEMBER THAT SOME EFFECT

COULD CONCEIVABLY BE FELT. HOWEVER, SUCH AN EFFECT WOULD BE SWALLOWED UP IN THE YEAR-END AND WINTER DOLDRUMS. RATHER, WHAT IS NOW LOOKED FOR IN THE SOURCE'S LOGICAL AND OBJECTIVE ANALYSIS IS A SPRING 1976 BOOM, BUT NOT MUCH BEFORE THEN. THE REALIZATION OF THIS, THE SOURCE SAID, EXPLAINED ECONOMICS MINISTER FRIDERICH'S MOST RECENT VERY CAUTIOUS AND NEUTRAL STANCE ON THE ECONOMIC OUTLOOK, WHICH HERETOFORE HAS BEEN MORE SLANTED TOWARD AN ACCENTUATION OF THE POSITIVE. (IT COULD ALSO BE THAT FRIDERICH DID NOT WANT TO GET TOO FAR OUT ON A LIMB IN THE ABSENCE OF SOLID GROUNDS FOR DOING SO AND THEREBY POSSIBLY LOSE CREDIBILITY WHEN THINGS DID NOT TURN OUT SO ROSY.)

14. WHILE IT WOULD SEEM THAT GROWTH IN PROSPERITY HAS ONCE MORE BEEN POSTPONED, NOT ALL OBSERVERS FULLY AGREE. THE ECONOMICS AND FINANCE MINISTRY ALONG WITH THE BUNDESBANK STILL EXPECT THE UPTURN AS COMING THIS YEAR, WITH THE TIMING VARYING BETWEEN THE SUMMER AND FALL 1975. PART OF THE EXPLANATION FOR THE DIFFERENCE IN THE VARIOUS VIEWS OF WHEN THE UPTURN WILL TAKE PLACE COULD BE DUE TO DEFINITIONAL PROBLEMS. FOR A BUSINESSMAN IT COULD MEAN ONE THING, AND FOR AN ECONOMIST ANOTHER. AND, AMONG ECONOMISTS, WHETHER ONE IS SPEAKING IN SEASONALLY ADJUSTED TERMS OR NOT, AND THE SHAPE OF THE CURVE FOR WHAT INDICATOR, COULD ACCOUNT FOR SOME CONFUSION.  
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## Message Attributes

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